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SUBJECT: STATE-OWNED ENTERPRISE REFORM KEY TO IMPROVING THE BUSINESS CLIMATE, PRIVATE SECTOR TELLS GVN

REF: A) Hanoi 606 ("DPM Hung Speaks On Inflation");
B) Hanoi 634 (Latest Economic Data Sends HCMC Into A Panic);
C) Hanoi 563 ("GVN Arrests Anticorruption Reporters");
D) HCMC 320 ("Labor Shifts Put Pressure On Manufacturers");
E) Hanoi 451 ("Paying Heed To Business Concerns")

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¶1. (U) Summary: The Government of Vietnam (GVN) got an earful of solicited advice from domestic and foreign businesses on how to improve its business climate at the GVN-sponsored Vietnam Business Forum on June 2. Commonly-cited prescriptions included redoubling efforts against corruption and red tape, harmonizing conflicting laws and legal interpretations, accelerating infrastructure development and addressing labor woes. The most poignant of the presenters' criticism, however, was on the need for reform in the state-owned sector. Local firms decried how state-owned enterprises (SOEs) mopped up and misused available credit, while foreign investors argued that SOEs made the economy less competitive and effective. Both the GVN and the private sector cited the country's ongoing macroeconomic difficulties as underscoring the need for further reform, but no one urged radical measures and the general mood was optimistic that Vietnam could surmount the challenges. End summary.

GVN ASKS FOR ADVICE AND GETS IT

¶2. (U) The Vietnam Business Forum (VBF), a biannual dialogue with the private sector convened by the GVN with help from the World Bank, was held in Hanoi on June 2, 2008, as part of the Mid-term Consultative Group Meeting 2008 (Septel). The event was chaired by the country directors of the World Bank and the International Finance Corporation and Planning and Investment Minister Vo Hong Phuc, and included high-level representatives from a bevy of GVN ministries, the local and foreign business community, the diplomatic corps and international donors. Private sector participation was organized by working groups on banking, capital markets, infrastructure, trading and distribution, and tourism.

IT'S THE SOES, STUPID

¶3. (U) The most resonant and oft-cited demand made by the working groups was the need for SOE reform. Criticism of SOEs came from foreign and domestic firms. The negative influence of these "well-connected incumbents," as an AmCham presenter put it, was cited on issues as diverse as land use, prudent fiscal measures, good business governance, fair competition, effective allocation of state resources, and credit. The Eurocham urged the GVN to "avoid further delays" on SOE reform, accelerate privatization, and provide a roadmap for full privatization instead of the piecemeal approach that the GVN has followed (known as "equitization").

THE LOCALS THUNDER LOUDER AGAINST THE SOES

14. (U) Some of the most poignant criticism came from Vietnamese firms themselves, in some cases directly pointing fingers at the miscreants (as one business group did when it used the example of state-owned shipbuilding company Vinashin's spendthrift ways). The Hanoi Business Association criticized the "operational inefficiency of state-owned enterprises --especially the difference between their total capital and their contributions to the national economy -- [which] results from uncompetitive production, which, in turn, stems from poor management". Another local organization, the Hanoi Association of Industry and Commerce, accused SOEs of speculating with state capital and upsetting macroeconomic stability. "We don't know for sure how much money [the SOEs have] invested in securities and real estate segments, but according to the Ministry of Finance, 28 out of 70 state-owned corporations and groups hold shares in banks, insurance companies, securities trading houses, real estate brokerages, and fund management enterprises to the tune of [\$1.4 billion]. And many of these corporations and groups have a high debt/equity ratio. The above factors have been, and still are, driving inflation, rather than 'loose monetary policy' alone as the [GVN claims]."

15. (U) Despite the Prime Minister's oft-mentioned call for curtailing the speculative activities of the SOEs (Ref A), most of the GVN representatives at the VBF did not address the calls for SOE reform directly. On banking, Deputy Governor of the State Bank of Vietnam Nguyen Dong Tien acknowledged that the "poor management" by state banks and the GVN had led to the current macroeconomic instability. He vowed to force smaller SOE banks to merge with larger ones "very soon" (Septel). Tien also agreed with private sector assessments that, while restricting credit to speculative SOEs was a move in the right direction, the GVN should ensure that exporters and manufacturers still have access to credit.

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MACROECONOMIC COMPOSURE

16. (U) Both the private sector and GVN representatives at the VBF alluded to Vietnam's current macroeconomic challenges during their discussions, but they stayed clear of alarmist tones (Ref B). The chair of the Capital Markets Working Group, Dominic Scriven from Dragon Capital, summed up the mood by stressing that good economic governance, calm and continuing reform were the best course of action. "In times of economic volatility, it is extremely important to encourage good governance practices, and penalize breaches of governance," he said. The head of the Banking Working Group, Ashok Sud from Standard Chartered Bank, commended the GVN for its monetary policy but also urged it to enact "strong fiscal measures" and quicken the development of the financial sector.

RED TAPE AND CORRUPTION

17. (U) Business leaders also urged Vietnam to accelerate administrative reform. Delays in licensing were commonly cited irritants for the Manufacturing, Trade and Distribution and the Banking working groups. "Huge gaps in interpretation" of regulations were another, according to the head of the Manufacturing working group. The president of the Australian Chamber of Commerce noted the "lack of consistency with different departments within the government, meaning many share the same rules, but have different interpretations of what these mean," and asked the GVN to ensure "the formation of a standard, consistent procedure" for interpreting regulations. The Japanese External Trade Organization also cited the lack of clear trade regulations, especially for foreigners in the service sectors.

18. (U) While recognizing Vietnam's anti-corruption efforts, the head of the Hanoi AmCham, Mike Pease of Ford, said that the business community was concerned about the May 12-13 arrests of two journalist and other GVN officers for exposing corruption (Ref C). "For anti-corruption measures to be effective, it is critical that members of the public and officials who are responsibly acting to

remove corruption are not penalized. Active government support and endorsement of anti-corruption measures at all levels of society, government and business is required."

LABOR AND INFRASTRUCTURE BOTTLENECKS

¶9. (U) Much like last year's VBF, skilled labor shortages and inadequate infrastructure came up again as two key areas that could choke off further growth. Port congestion and insufficient cargo handling capacity at Vietnam's ports are "particularly acute," according to Shirley Justice, from Nike, who presented the report on Ports and Infrastructure. The GVN replied that it would accelerate its master plan for ports, and would have it ready by December of this year rather than May of 2009.

¶10. (U) Another source of concern was illegal labor strikes, which have been exacerbated by rising inflation (Ref D). AmCham's Pease recognized that workers had "legitimate concerns," but that these needed to be addressed "in a legal, constructive and peaceful way." He and the EuroCham urged the GVN to take mediating action and to ensure that workers abide by Vietnam's Labor Code.

COMMENT

¶11. (U) The frank discussion between Vietnam and the private sector is a good indication that the GVN continues to favor a pragmatic and inclusive approach to economic governance. The criticism from domestic business groups, particularly against the entrenched interests of the SOEs, was even more encouraging. The criticism did not detract from the recognition that Vietnam has moved fast and has been responsive to private sector concerns, including those raised during the latest VBF in December 2007 (Ref E). Vietnam will be wise to pay heed to the friendly advice, particularly calls for further reform in order to stay competitive and weather the macroeconomic turbulence. End Comment.

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